During the year the Group undertook a thorough review of its assets and, mainly as a result of rapid changes in technology, has included within exceptional items a fixed asset impairment charge amounting to £1,293 million. There is also a write down of deferred customer acquisition costs amounting to £77million.

The £180 million amortisation charge for the year includes £113 million relating to the US internet business acquired in September 1998, along with £29 million relating to the 11 European Internet Service Providers (ISPs) and £19 million relating to the 80% of Cable & Wireless IDC acquired during the year.

Pre-tax profit including all exceptional items, amortisation and non-recurring items was £4,024 million.

The tax charge for the year was £450 million. After excluding a £259 million tax charge on the exceptional items and amortisation, the Group's effective tax rate is 17%, the same as the previous year.

Profit attributable to shareholders rose to £3,724 million. Earnings per share before exceptional items and amortisation were 19.4 pence. Earnings per share rose 115.4 pence to 153.6 pence.

REVIEW BY BUSINESS

Cable & Wireless Global

Cable & Wireless has formed Cable & Wireless Global as its main vehicle for the global delivery of services to business customers in the key markets of the US, Europe and Japan. Cable & Wireless Global includes the Group's wholly owned operations in the US, Europe and Japan along with its Global Markets business. With the completion of the restructuring of Cable & Wireless Communications, Cable & Wireless Global will include Cable & Wireless UK. Cable & Wireless Global will be fully integrated across national boundaries. By bringing all its global businesses together in this way, Cable & Wireless is able to offer a single, global network, a single, global product suite and a single, global service level guarantee. This will further its strategy of focusing on IP and data services to business customers in the world's major markets.

The commentary below reflects the Cable & Wireless Global results inclusive of Cable & Wireless UK.

Revenue	2000 £m	% Increase on a reported basis	As % of total
IP	474	90%	14%
Data	902	20%	26%
Voice	2,072	13%	60%
Total	**3,448**	**22%**	**100%**

Total revenue has increased by 22% to £3,448 million, reflecting growth across all key geographies and all lines of business. Of the £617 million increase in revenue, 60% has been generated from high-growth IP and data services which now represent 40% of total revenue. Reliance on voice services has fallen with voice revenue declining from 65% of total revenue in the prior year to 60% in 2000.

IP

Revenues generated from dial-up and dedicated internet access services, IP bandwidth services, web hosting and other value-added services have risen by 90%. Contributing to the increase is the inclusion of a full year's revenue from the US internet business acquired in September 1998 and the acquisition of 11 ISPs in Europe during the year. Underlying growth was 45%.

These results have been achieved in the face of falling prices due to growing competition in all markets, including competition from wireless network providers; as well as the introduction of business models not reliant on access revenues.

IP services have expanded rapidly. Dial-up internet ports increased by 167% during the year to over 267,000 ports in use. Dedicated internet access as measured by the number of T1 (1.544 Mbps) equivalents has increased by 90% to over 22,000.

This increase reflects the number of business customers migrating their data networks and applications to internet-based technologies as well as the significant expansion in business-to-business e-commerce and the growing use of e-business to re-engineer critical business processes.

Data

Revenues from data services including non-IP bandwidth services, managed data and messaging services have increased 20%, on both a reported and an underlying basis, to £902 million.

As in the IP market, Cable & Wireless Global has entered a growing but competitive market where prices are falling by 30% in certain sectors. Demand, however, has been strong with total underlying volumes of data circuits increasing by almost 100% during the year. This has been driven by rising demand from corporate end-users for high-speed data connections to accommodate increasingly complex applications. There has also been significant growth in sales to carriers and ISPs.

Competition has increased, particularly in the international and long-haul capacity market, and higher capacity circuits now account for a rising percentage of total demand. Cable & Wireless Global is meeting the demand for greater bandwidth by expanding its global network and increasing the number and speed of its frame relay and ATM (Asynchronous Transfer Mode) connections.

Voice

Revenue from voice services, including national and international long distance, calling card, conference-calling and operator-handled services, has increased by 13% year-on-year. This increase was mainly generated by the Group's increase in shareholding in Cable & Wireless IDC on 15 June 1999. Underlying growth was 2%.

Average revenue per minute has fallen since the previous year reflecting a higher proportion of carrier traffic now handled by Cable & Wireless Global; the Company's strategy of migrating higher-usage customers to calling plans to optimise the customer base for future growth; and growing competition in the US, Japan and the UK from both mobile and wireline providers.

Total traffic volumes increased by 21% to 48.3 billion minutes as a result of higher sales of toll-free and premium rate calls in the UK and US and significant increases in sales to wholesale and carrier customers. These increases have been partially offset by the general switch from fixed to wireless networks as mobile penetration increases and the Company's strategy of migrating customers to IP solutions such as VOIP (voice over IP).

Revenue by Geography	2000 £m	% Increase on a reported basis	As % of total
USA	839	11%	24%
UK	1,865	5%	54%
Japan	314	100+%	9%
Europe	113	33%	3%
Global Markets	317	68%	10%
Total	**3,448**	**22%**	**100%**

The above table and the geographic commentary that follows reflect the results of Cable & Wireless Global on the basis of its management structure. This does not wholly reflect the geographic legal structure which is used to produce the segmental analysis of the Group's results in the financial accounts.

USA

US revenues grew by 11% to £839 million, both from organic growth and from the inclusion of a full year's revenue from the US internet business acquired in September 1998. Underlying growth was 2%. IP revenues increased by 80% to £245 million or 29% of revenue.

Notable launches of IP products and services during the year included business-to-business Cable & Wireless Wholesale Dial and VISP (Virtual ISP) services which will help Cable & Wireless to maintain and grow its position as a Tier 1 provider of IP access and transit services. Development of these services will also allow Cable & Wireless to draw content providers to its network.

The portfolio of web-hosting solutions was expanded during the year with the addition of the Cable & Wireless Shared Web Hosting service to meet the needs of small and medium-sized enterprises (SMEs). Combining web-hosting and e-commerce solutions, the new service enables businesses to quickly build customised web sites with e-commerce functionality and to enhance their web sites and e-commerce capabilities as their business expands.

In November, the Cable & Wireless Global.net service was launched to connect ISPs around the world to the Cable & Wireless backbone. The Cable & Wireless Web Content Distributor service, which replicates static parts of popular web sites to other nodes on the backbone to make downloading even faster, was also introduced.

UK

Revenue from Cable & Wireless UK was £1,865 million, an increase of 5% over last year. IP revenues increased by 55% to £163 million or 9% of revenue.

Product development has focused on business-oriented data and IP products. New introductions include IP-VPN, Frame Relay 2000, web-enabled call centre applications and web commerce solutions. The Cable & Wireless Internet Call Management service, an internet-based reporting service introduced in June 1999, has been particularly well received and has directly resulted in over £20 million of voice business since its launch. A new IP-VPN service launched in March 2000 enables companies to use a single network for data, voice, video and internet traffic.

The business has successfully utilised the Group's Tier 1 internet backbone and ISP acquisitions to achieve significant growth in IP transit services to customers in the UK and overseas. Internet demand also generated a 100% year-on-year increase in the volume of trans-Atlantic bandwidth sold to customers of International & Partner Services.

Cable & Wireless has consolidated its position as a leading provider of voice, data and IP carrier solutions to mobile network operators. Services are now provided to 28 mobile operators in 19 countries, including major customers in the UK, Italy, Germany, Spain and France. International call volume from mobile operators grew by 86%.

Many established areas of business also generated strong growth. International traffic volumes grew 24% year-on-year – well in excess of the market rate. Switchless resale revenue grew fourfold and is set to grow further following the completion of a three year, £80 million agreement with a major customer. Annual revenue from premium rate services grew by 41%.

Japan

Since its acquisition in June 1999, Cable & Wireless IDC has generated revenue of £314 million. It continues to transform itself from an international voice business with about 20% of the market into an IP and data business. Voice volumes have been maintained, but the Japanese market saw significant falls in tariffs in October 1999 and February 2000, triggered by the entry of NTT into the international services arena.

IP and data revenues accounted for 20% of Cable & Wireless IDC's revenue. IP revenues mainly arise from the supply of international gateway access where Cable & Wireless IDC is strongly positioned as Japan's second largest supplier of international connectivity. Other IP services introduced since acquisition include web-hosting which, together with connectivity revenues, has led to a consistent month-on-month growth in IP turnover.

Europe

Total revenues from continental Europe amount to £113 million, of which £26 million or 23% arises from IP services. The business in Europe supports voice and data business with multinational Global Markets customers, other telecommunications providers and SME business customers. In 1999, the focus was on rapidly expanding Cable & Wireless' IP and data capability for European business customers by selectively acquiring a number of ISPs and Network Integrators and acquiring and building a European network. The ISP acquisitions bring a portfolio of predominantly business customers.

Global markets

Global Markets revenue increased by 68% to £317 million. Set up to service the specific requirements of multi-national customers, Global Markets continues to expand and has increased its customer base from 30 to 52 companies. In the coming year the account base will grow substantially.

Cable & Wireless' increasing focus on the US, Japan and Europe aligns the business with the key markets for multi-national customers. Global Markets has strengthened its presence in these markets by opening a dedicated Japanese facility and expanding its US offices.

Multinational customers are rapidly adopting IP services. Of the bids for new business by Global Markets, about 70% by value involve IP products. This alone endorses the Group's strategic decision to focus its investment and future growth on IP-based services to business customers.

There was particular expansion among companies with significant IP and data services usage. A major development in the year was the ground-breaking deal with Compaq to develop Application Service Provider (ASP) platforms and services using Cable & Wireless hosting centres integrated with the global IP backbone network.

Operating costs

Operating costs before exceptionals and amortisation	2000 £m	% increase on a reported basis	As % of total
Outpayments	1,707	39%	50%
Staff Costs	570	45%	17%
Depreciation	482	25%	14%
Other Costs	646	12%	19%
Total	3,405	32%	100%

The increase in Cable & Wireless Global's total operating costs reflects the strong growth in revenue, significant investment in the IP market, product and service development during the year, particularly in the US and Europe, and the impact of the acquisitions referred to previously. Underlying cost growth was 12%.

Outpayments as a percentage of revenue increased from 43% in 1999 to 50% in 2000, principally as a result of lower margins in the Partner Services marketplace in the UK and the costs of initial connectivity pending the build-out of network.

Staff costs as a percentage of revenue increased from 14% in 1999 to 17% in 2000. This increase was mainly due to higher marketing, product development and sales force costs, particularly in the US and Europe, as well as significant costs incurred on Y2K compliance and the UK national code change.

Depreciation as a percentage of revenue remained constant at 14% while other operating costs declined from 20% in 1999 to 19% in 2000.

Capital expenditure

At £1,449 million, capital expenditure in Cable & Wireless Global represented 48% of the Group total. Expenditure in Cable & Wireless Global principally related to the development of the network, particularly the global IP network.

This network is being extended around the world using the same routing and switching technology as in the US. This single architecture design means that traffic only passes through one network rather than 'hopping' across a number of networks, as it does with many of Cable & Wireless' competitors. In addition, the Cable & Wireless IP network has among the lowest monthly latency and packet loss ratings and the highest reliability of any in the industry. All these features enable Cable & Wireless to offer some of the industry's highest service level guarantees to customers of its Direct Connect service.

On 10 May 2000 Cable & Wireless announced the completion on schedule of the first phase of its $3.5 billion global IP network construction programme with the installation of IP nodes in London, Frankfurt, Amsterdam, Paris, Hong Kong, Tokyo and Sydney. With this phase completed, Cable & Wireless has created a single, global high capacity IP network that will deliver integrated internet, data, voice and messaging communications with a consistent quality of service for businesses worldwide.

The IP network will be expanded to 84 international nodes by 2001 as part of the drive to build the most advanced OC-192 (9.6 gb/s) capable global IP network in the industry. Over the next year, nodes will be introduced into Spain, Belgium, Switzerland, Italy, Denmark and Sweden with further nodes in the UK, Japan, France and Germany.

The US network operates with 23 nodes, linked by 17,000 miles of six strand fibre and 30,000 miles of other capacity running at OC-48 speeds (2.4 gb/s) on a nationwide basis and OC-192 (9.6 gb/s) speeds on the East Coast.

The European backbone network is being connected with 11,000 miles of four strand fibre. The 11 ISPs will each be integrated into the network, giving Cable & Wireless 200 points of presence by 2002. The IPergy network, a pan-European fibre optic internet backbone, brings forward the European roll-out of Cable & Wireless' IP services, in particular its co-location hosting centres, by nine months.

Next-generation web-hosting centres sited directly on the global IP network nodes will provide customers with faster and better websites, more advanced e-commerce applications and guaranteed performance levels. A 33,000 square feet hosting facility was opened in Reston, Virginia, in November 1999. In Japan, the data centres in Tokyo and Osaka are to be expanded to 120,000 square feet and the UK will shortly see the opening of a major new web hosting centre, located in Swindon and connected to the London node.

The Network 2000 programme in the UK will greatly increase the capacity in the core network. 125 national SDH rings, some of which are running at 9.6gb/s, have now been completed. Over the course of the next year, the figure will rise to at least 40 gb/s. Progress towards the Network 2000 target of 200 rings delivering 15 million 2Mbps-km in the national network is well under way and the original plans have been extended. SDH capacity will be progressively expanded beyond the original targets to keep pace with dramatic market growth.

Cable & Wireless Global has invested in 22 STM-1s of capacity in APCN-2, a 19,000km cable connecting eight Asian countries and has purchased over 100 STM-1s on the China-US, Japan-US and PC1 international cables. It has also purchased over 400 STM-1s on the Gemini and TAT-14 trans-Atlantic cable systems.

Cable & Wireless Optus

Revenue	2000 £m	% increase/ (decrease) on a like for like basis	As % of total
Data and Business	606	35%	37%
Mobile	704	28%	43%
Consumer and Multimedia	347	64%	21%
Other (inc elims)	(7)	–	(1)%
Total	**1,650**	**37%**	**100%**

Cable & Wireless Optus Limited became a subsidiary on 1 October 1998. Six months' results were included in the consolidated figures for 1999 while 2000 saw the consolidation of a full twelve months' results. The following commentary is based on a like-for-like comparison of 12 months in 2000 against 12 months in 1999.

Cable & Wireless Optus accelerated its growth in all three operating divisions (Data & business, Mobile and Consumer & multimedia) and revenue grew by 37% to £1,650m.

Data & business

The Data & business division serves Cable & Wireless Optus' largest customers for fixed line business. These range from medium sized businesses to large corporates and carriers. The division delivers a wide range of sophisticated products – from video to data to business-to-business e-commerce – across a range of access platforms from CBD fibre to satellite. With its connection to the Cable & Wireless global backbone, the division offers global IP solutions and is stepping up its web-hosting capacity and sales of Cable & Wireless global products.

This division achieved strong revenue growth of 35%, driven by IP and data revenues which increased by 100% and now contribute 37% of the total – a proportion set to increase.

Directly connected voice revenues also grew significantly, driven by increasing penetration of the corporate and government market. Long distance revenues were affected by the intense competition in this market.

Mobile

This division has improved its market share in each of the last seven quarters. Cable & Wireless Optus achieved the highest net customer additions for 2000 of any carrier in Australia and accounted for 43% of the total growth in the mobile market. As a result, revenue growth accelerated against the previous year – this year reaching 28%. By growing its overall market share to 33%, the company has been able to offset the effects of the AMPS network closure.

The division has continued to expand its channels and now has 6,000 outlets. Customer numbers increased by 42%, three times the previous year's figure, with retail GSM churn down from 33% to 22%.

The Mobile division and Virgin have announced that the two companies are to launch a Virgin-branded mobile phone company in Australia later this year – a move that will help Cable & Wireless Optus to reach the emerging mass market of young and value-conscious mobile phone users. The Virgin Mobile joint venture is one of the main channel expansion initiatives for 2001.

To minimise the dilution of average revenue per user (ARPU) from new-to-market customers, Cable & Wireless Optus is using innovative marketing such as the 'yes' Time and 'yes' Weekend programmes to stimulate usage. Dilution in ARPU in 2000 was limited to 8%, reflecting greater competition and an increase in the proportion of prepaid revenues.

While the company is strong in the high-growth prepaid segment, prepaid users still make up less than 20% of the company's customer base. Wholesale customers continue to represent around one third of the total.

During the year, Cable & Wireless Optus was the first to market a wireless application protocol (WAP) service. Known as the NetWorker service, this effectively creates a 'mobile adapted internet' with a range of information menus including share prices, breaking news, sports news, horoscopes and weather. The NetWorker service also provides mobile access to most internet email accounts.

Consumer & multimedia

Consumer and multimedia is Cable & Wireless Optus' smallest but fastest growing division and has two revenue streams – rapidly growing broadband and IP; and consumer long distance and local call resale.

At 64%, Consumer & multimedia's growth rate was the highest of Cable & Wireless Optus' three divisions. Broadband and IP revenues more than doubled, reflecting a 52% increase in broadband customer numbers and a 47% rise in average revenue per user. Both these factors were the result of an aggressive rollout of telephony, both local and long distance, with telephony customers now exceeding 300,000. A cable modem internet access service was launched in January 2000 in partnership with At Home Network Australia Pty Limited, a joint venture between Cable & Wireless Optus and Excite@Home. Dial-up internet revenue almost tripled and customer numbers grew by 148%.

Off-network revenue also grew strongly at 41%, mainly through an increased take-up of local call resale by long distance customers. Long distance revenue was flat, reflecting intense price competition in the market.

Operating costs before exceptionals and amortisation	2000 £m	% Increase on a like for like basis	As % of total
Outpayments	515	40%	34%
Staff Costs	154	26%	10%
Depreciation	244	32%	16%
Other Costs	603	28%	40%
Total	**1,516**	**32%**	**100%**

The increase in total operating costs reflects the strong growth in revenue, customers and traffic.

Outpayments increased by 40%, mainly as a result of the growth in local call resale. Excluding this effect, outpayments declined as a percentage of revenue as the proportion of revenue generated from Cable & Wireless Optus' own networks increased.

Staff costs as a percentage of revenue fell, despite an increase in customer numbers. Employee productivity increased in terms of both revenue and EBITDA per employee. The increase in depreciation resulted from the company's recent investments in its networks and customer premises equipment. Relative to revenue, depreciation was lower than in the previous year.

While expenditure on Y2K computer software remediation declined, the relatively strong growth in higher cost services, together with an increase in customers and traffic, meant that other costs also increased. The investment in new multimedia businesses contributed to higher costs.

Notwithstanding these higher costs, overall margins increased. Cable & Wireless Optus continues to seek the right balance of costs to support its traditional business areas while developing new revenue streams. A key part of the process is an ongoing business improvement programme covering both administrative costs and customer service.

Cable & Wireless HKT

Revenue	2000 £m	% Increase/ (decrease) on a reported basis	As % of total
Fixed International	883	(27)%	39%
Fixed Local	815	12%	36%
Mobile	393	(13)%	17%
Internet, IMM and VOD	83	69%	4%
Other	79	1%	4%
Total	**2,253**	**(11)%**	**100%**

International telecommunications services

Revenue from Cable & Wireless HKT's international telecommunications services fell by 27% to £883 million.

As a direct result of increased competition and the reduction in average retail International Direct Dial (IDD) tariffs, revenues from international telephone services fell 41%. This was mitigated by a substantial 41% reduction in international outpayments and delivery fees which maintained IDD gross margins. In addition, the introduction of competition has given Cable & Wireless HKT greater pricing flexibility and allowed it to enhance its marketing programmes and be more responsive to customer needs. As a result, Cable & Wireless HKT was able to stabilise its market share in the second half of the financial year.

Cable & Wireless HKT improved its competitive position as an international wholesale carrier with revenues from wholesale international leased circuits and managed network services increasing by 25%. Demand for high bandwidth connectivity continues to be driven by rapidly growing internet usage across Asia. Total international leased circuit capacity increased by 81% to 2,171 Mbps. Cable & Wireless HKT's NETPLUS business is now well established as Hong Kong's leading provider of local and international IP connectivity and operates one of Asia's largest IP backbone networks.

Cable & Wireless HKT suffered a 10% decline in wholesale switched international traffic. During 1999, competitors continued to refile traffic through third countries, particularly on the China routes.

Local telecommunications services

Revenues from local telecommunications services increased by 12% to £815 million. The main reasons were higher demand for internet, data and network interconnection services, an increase in residential fixed line charges from 1 September 1999 and a 61% growth in sales of LAN network products and PCs.

Total dial-up internet traffic in Hong Kong grew 116% to12.4 billion minutes, approximately 90% of which was delivered by Cable & Wireless HKT. High-speed broadband customer connections increased by 60% to over 143,000 lines as demand continues to rise. Cable & Wireless HKT's broadband fixed network is now available to about 95% of Hong Kong's homes and businesses and offers dedicated bandwidth to support high speed internet, interactive multimedia and e-commerce services.

Mobile services

Mobile prices and margins have fallen significantly, particularly since the introduction of mobile number portability in Hong Kong in March 1999. As a result, revenue from mobile services fell 13% to £393 million.

Mobile penetration in Hong Kong has now reached approximately 60%. In the last six months, Cable & Wireless HKT has increased its customer base by 33,000 to 958,000 by continuing to offer the highest quality network and the widest choice of wireless information and transaction services – including Hong Kong's most comprehensive WAP-based services. This approach has ensured a relatively low rate of customer churn and has sustained service revenues. For the second successive year, Cable & Wireless HKT was named the best mobile carrier in Asia by Telecommunications Asia magazine.

Revenues from mobile equipment sales increased by 31%, largely due to higher sales of new dual-band and WAP-enabled handsets and reduced handset subsidies in the second half of the financial year.

Higher speed GPRS packet switched services are due to be introduced in the third quarter of the current financial year. In February 2000,

Operating and Financial Review
continued

Cable & Wireless HKT completed the first phase of its 3G network technology trials with Nokia.

Internet & interactive multimedia services
Revenues from internet and interactive multimedia services were up by 69% to £83 million.

With a total of 561,000 customers – up 74% in the year – the NETVIGATOR service is the clear leader in Hong Kong's dial-up and broadband internet access market. Demand for high-speed internet connections increased strongly in the last quarter of the year. The number of residential and business customers for Cable & Wireless HKT's 1.5 Mbps broadband services grew more than seven fold during the year to reach 77,000.

The number of dial-up customers grew by 56% to 484,000. The reputation of the NETVIGATOR service for high quality connectivity and customer service was recognised by readers of PC World Hong Kong magazine who voted it Hong Kong's best internet service provider for the third year running. The NETVIGATOR service in Hong Kong and Taiwan now attracts some 6.2 million daily page views and is one of the world's largest Chinese language portals.

Cable & Wireless HKT's new integrated e-Business Solutions unit will strengthen the company's position as Hong Kong's leading provider of dedicated leased line internet access (now with over 3,200 customers) and as Hong Kong's largest operator of data centres providing facilities management and web-hosting services. These currently occupy over 200,000 square feet.

Cable & Wireless HKT is increasingly forming alliances with international partners to accelerate the introduction of new e-commerce applications and services. It has recently announced developments relating to on-line marketplaces and business portals, on-line data security, application service provision and on-line payment systems.

In Taiwan, FIC Network Services, now an 85%-owned subsidiary, has expanded its internet access customer base by 450% from 40,000 to over 220,000 dial-up customers at 31 March 2000.

Earlier this year, Cable & Wireless HKT launched new internet access and data centre operations in Korea and Singapore. It is currently in advanced negotiations for the acquisition and launch of similar businesses in several other Asian countries. With a rapidly growing base of customers in Hong Kong, the call centre business of Cable & Wireless HKT recently opened its first overseas operation in Taiwan and is planning to expand into other Asian markets.

Operating costs before exceptionals and amortisation	2000 £m	% Increase/ (decrease) on a reported basis	As % of total
Outpayments	322	(35)%	20%
Staff Costs	329	4%	21%
Depreciation	241	5%	15%
Other Costs	701	23%	44%
Total	**1,593**	**(1)%**	**100%**

Overall operating costs have fallen 1% to £1,593 million. At constant rates of exchange, this represents a 4% reduction.

The liberalisation of the international services market meant lower delivery fee payments to other telecommunications operators and enabled Cable & Wireless HKT to achieve substantial reductions in accounting rates. During the year, outpayments fell 35% to £322 million.

Staff costs rose 4% to £329 million. The number of employees at 31 March 2000 was 13,857.

Caribbean

Revenue	2000 £m	% Increase/ (decrease) on a reported basis	As % of total
Fixed International	506	(10)%	52%
Fixed Domestic	336	25%	35%
Mobile	88	49%	9%
Internet	18	64%	2%
Other (inc elims)	22	24%	2%
Total	**970**	**6%**	**100%**

The Caribbean, including Cable & Wireless Panama, increased its overall revenues by 6%.

International revenues were down on the previous year following moves to align accounting rates to FCC benchmarks, price reductions in the second half of the year and the continuation of illegal bypass and call back activity. The price reductions stimulated traffic volumes which resulted in a 6% increase in outbound international minutes.

Domestic revenues grew 25%, reflecting increases in all parts of the region generated by new tariff structures and an 8% increase in lines in service. The installation of a new prepaid calling card platform in Jamaica, new retail stores and the introduction of a new telemarketing centre in the Caribbean have also contributed to the increase.

Mobile and internet services produced strong growth. This was fuelled by high levels of investment and vigorous sales efforts that increased the number of mobile customers by over 100% in Panama and by a significant percentage in other markets. Internet growth came from both high-bandwidth direct connections and residential dial-up services. Growth will be further enhanced next year by the introduction of offshore e-commerce services centred in Bermuda.

A significant milestone was the passage of a new Telecommunications Bill in Jamaica in March 2000. This provides for the phased introduction of competition to all sectors of the Jamaican telecommunications market over the next three years and for immediate competition in mobile and international services.

Operating costs before exceptionals and amortisation	2000 £m	% Increase on a reported basis	As % of total
Outpayments	177	7%	27%
Staff Costs	173	9%	26%
Depreciation	110	11%	16%
Other Costs	208	28%	31%
Total	**668**	**14%**	**100%**

Total outpayments rose by 7% in the year. International outpayments fell as a result of reductions in accounting rates and better management of international traffic leading to more efficient routing. However, this reduction was more than offset by the increase in outpayment costs associated with the growing mobile business.

Staff numbers increased by less than 1% across the region, largely due to the restructuring of the Jamaican workforce, offset by the introduction of new positions in the region to support the growth in the mobile business. Inflation and redundancy costs meant a rise in employee costs.

Depreciation rose by 11%, reflecting higher capital investment in the mobile and fixed line network rollout programmes in Panama and the shortening of some depreciation periods following a review of asset lives.

Other cost increases are the result of an unfavourable exchange movement in Jamaica and the costs of the growing mobile business.

Other businesses

Other businesses include the Group's operations in the Middle East, South East Asia and other parts of the world. These contribute revenues of £389 million to the Group – 4% of total turnover and a similar level to 1999.

Other businesses also include the Cable & Wireless Communications' consumer business. Revenue from this operation grew by 1% to £694 million. Two thirds of its customers subscribe to both telephony and TV services, demonstrating the continued success of the Access combined television and telephony package.

Subscribers to the cable TV service increased by 10%, resulting in an 11% increase in associated revenue and a 25% increase in gross margin. Cable & Wireless Communications launched its digital cable TV service – the first in the UK – on 1 July 1999. This has been running on a full commercial basis since November and has attracted 200,000 new orders during the year – 54% from new customers. Interactive services are being rolled out in London and the South East.

Telephony revenues fell during the year, reflecting increased competition and falling prices.

Goodwill amortisation

The goodwill amortisation charge for the year increased from £61 million in 1999 to £180 million in 2000. This increase reflects the inclusion of a full year's amortisation of the goodwill arising on the acquisition of the US internet business in September 1998 and amortisation of the goodwill arising on the acquisitions during 2000. The main components are £113 million relating to the US internet business, £29 million relating to the acquisition of 11 European ISPs and £19 million relating to the acquisition of 80% of Cable & Wireless IDC.

Joint ventures & associates

The Group has interests in some 18 joint ventures and associates. Cable & Wireless' share of turnover of joint ventures and associates was £467 million compared with £1,176 million last year. This decrease mainly results from the disposal of One2One in August and the inclusion of Cable & Wireless Optus as a joint venture for the first six months of the previous year. In addition, Cable & Wireless IDC became a subsidiary in June 1999. The turnover of the principal joint ventures and associates, and their growth compared with last year, are shown below:

Share of joint ventures and associates turnover	2000 £m	% Increase/ (decrease)
One2One	162	(59)%
Gemini (UK/Bermuda cable operator)	89	22%
TSTT (Trinidad)	70	(3)%
Cable & Wireless Optus	–	(100)+%
Cable & Wireless IDC	14	(77)%
Other (inc elims)	132	(53)%
Share of turnover	**467**	**(60)%**

The Group's share of operating profits of joint ventures and associates was £74 million compared with £123 million last year. This 40% decrease was mainly the result of Cable & Wireless Optus becoming a subsidiary from 1 October 1998 along with the disposals of Asiasat, Mobile Telephone Networks and Lattelekom SIA last year. This was offset by an 81% reduction in the Group's share of One2One's losses due to its disposal. The Group's share of One2One's operating losses to August 1999 totalled £5 million, compared with £26 million for 12 months last year.

Taxation

The tax charge for the year is £450 million. Before exceptional items the figure is £191 million, reflecting a 17% effective tax rate on the profit before exceptional items and amortisation. The effective rate has been maintained at the 1999 level and is significantly lower than the statutory UK rate, partly because much of the Group's income is generated in jurisdictions with low tax rates and partly because of tax losses available within Cable & Wireless Communications.

A £259 million tax charge arises on £4,452 million of exceptional profits on the disposal of operations and fixed assets.

Minority interests

The minority interest charge before exceptional items fell 17% to £458 million. This is due to lower profits from Cable & Wireless HKT.

Other components of minority interest include £77 million relating to Cable & Wireless Optus and £25 million relating to Cable & Wireless Panama. Due mainly to the exceptional fixed asset impairment in the year, the minority interests' share of the Group's net assets has fallen £397 million to £3,029 million.

Treasury and funding activities

The Group's principal treasury and funding operations are carried out by the London-based Group Treasury on the basis of objectives, policies and authorities approved by the Board. The Group's internal treasury policies and strategies are regularly reviewed and have not changed significantly in the last financial year. Cable & Wireless HKT, Cable & Wireless Communications and Cable & Wireless Optus also operate treasury and funding operations whose policies and authorities are adopted by their individual Boards but are consistent with the Group objectives, policies and strategies. The Group uses financial instruments including forward foreign exchange contracts, interest rate swaps and cross currency swaps in its management of exchange rate and interest exposures. While these instruments are subject to the risk of loss from changes in the related exposures, any such losses would be offset by gains in the related exposures. The Group does not speculate in derivative financial instruments. Counterparty credit risk is closely monitored and derivatives activity is tightly controlled. Both UK and overseas treasury activities are subject to close supervision and audit reviews.

Funding

Group gearing has fallen from 87% in March 1999 to 16% in March 2000 following the disposal of assets which raised £5,175 million. In the year the key disposals were the holdings in One2One (£3,455 million in August 1999), Bouygues Telecom (£700 million in July 1999), Global Marine (£450 million in July 1999) and Bezeq (£394 million in December 1999).

As a result of the disposals, Group Treasury has been managing the investment of an average of £3,000 million from 1 October 1999 to 31 March 2000. The cash has been invested predominantly in money market deposits and commercial paper. At the year-end, the maturity of the cash investments was less than one month in anticipation of the completion of the ntl transaction.

Cable and Wireless plc's debt ratings improved during the year. At 31 March 2000 they stood at A/A1 from Standard & Poor's and A2/P1 from Moody's Investors Service.

In June 1999 Cable and Wireless plc successfully acquired a further 80% holding in Cable & Wireless IDC Inc. (formerly International Digital Communications) of Japan. The investment of Yen 55.2 billion has been hedged using long term cross currency swaps. A Yen 60 billion five year facility was subsequently arranged in February 2000 by a wholly owned and guaranteed subsidiary of Cable and Wireless plc in order to provide funding and financial flexibility for Cable & Wireless IDC.

During the year Cable & Wireless Optus has diversified its sources of funds and raised debt in Australia, Europe and the US. It accessed the US capital markets for the first time in June 1999 with a US$350 million ten year bond. Locally in 1999, Cable & Wireless Optus issued an AUD200 million three year Medium Term Note (MTN). In March 2000 it issued a further AUD300 million MTN with a maturity of five years and raised € 400 million with a seven year MTN issue.

At 31 March 2000, the Group had net debt of £1,257 million, gross debt of £6,245 million and cash and equivalent assets of £4,988 million. The principal components of gross debt were £3,482 million in Cable & Wireless Communications, £601 million in Cable and Wireless plc, £479 million in Cable & Wireless International Finance BV and £838 million in Cable & Wireless Optus. The principal components of cash were Cable and Wireless plc with £2,824 million and Cable & Wireless HKT with £1,546 million.

In its funding policy, the Group continues to maintain a broad portfolio of debt, diversified by source and maturity and reflecting the long-term nature of its worldwide business and asset base.

Credit risk management

The counterparties to the Group's financial instruments are major international financial institutions. Credit risk represents the loss that would be recognised at the reporting date if counterparties failed completely to perform as contracted. It is the Group's policy to monitor the financial standing of these counterparties on an ongoing basis. During the year the counterparty list for deposits was revised and approved by the Board with the increased levels of cash.

Interest rate risk management

The Group assesses the exposure of its overall financial position on a net basis, after considering the extent to which variable rate liabilities can be offset with variable rate assets – typically short term deposits and cash. The Group's policy is to minimise interest expense. In order to achieve this policy, the Group targets a ratio of fixed to variable rate debt which is approved by the Board, based on an assessment of interest rate trends. To obtain this ratio in a cost efficient manner, the Group mainly uses interest rate swaps and forward rate agreements (FRAs) that have the effect of converting specific debt obligations of the Group from fixed to variable rate, or vice versa, as required.

Approximately 73% of the Group's medium and long-term borrowings is currently at fixed rates of interest.

Cable and Wireless plc and Cable & Wireless International Finance BV use interest rate swaps and cross currency swaps to manage the debt fixed/floating ratio.

Cable & Wireless Communications had gross debt of £3,482 million of which 79% is at fixed rates. A combination of collars, interest rate swaps and cross -currency swaps are used to achieve this position.

Cable & Wireless HKT uses forward rate agreements, caps and interest rate swaps to manage interest rate risk on its short term deposits. At the year end, £16 million sterling equivalent of such instruments was outstanding.

Approximately 73% of medium and long-term debt held by Cable & Wireless Optus has been fixed by using interest rate swaps.

Exchange rate risk management

The Group's debt has an average maturity of about six years with approximately 66% denominated in sterling, 14% in Australian dollars, 12% in US dollars and 8% in other currencies. A proportion of the overseas asset base is matched by foreign currency borrowings.

The Group carries out foreign exchange hedging operations, mainly using forward rate contracts and currency options, to manage its exposures in respect of material transactions. Hedging strategies are regularly reviewed to ensure that the most effective and efficient methods are being used. Although the Group trades in over 50 countries, much of its revenue is from international traffic flows and is settled in major currencies on a regular basis. For this reason, the Group is not unreasonably exposed to localised currency fluctuations or exchange controls.

Borrowing facilities

The total amount of the Group's undrawn committed facilities available as at 31 March 2000 is £2,155 million. Of this total, Cable & Wireless Communications had £190 million, Cable & Wireless HKT £218 million and Cable & Wireless Optus £1,025 million. As at 31 March 2000, the Cable and Wireless plc has undrawn committed medium-term bank facilities of £410 million with maturities ranging from 2000 through to 2002. These facilities are provided by a number of banks and can be used either to support the Group's sterling, Eurodollar and US domestic commercial paper programmes or as direct bank lending. During the year, no additional bi-lateral facilities were agreed, £40 million was cancelled and £500 million expired. None of the Group's covenants relating to loans and other financing is expected to restrict normal business activities.

Cash flow

Operating cash flow was strong at £2,236 million. Capital expenditure was up 52% at £3,033 million reflecting the Group's network investment programme. The major components were £1,061 million in Cable & Wireless Communications and £596 million in Cable & Wireless Optus.

Cash paid for acquisitions in the year was £426 million. The principal investment was the acquisition of 80% of Cable & Wireless IDC for £291 million. The company also invested over £200 million cash on the acquisition of 11 European ISPs. During the year Cable & Wireless has realised £5,175 million of cash from the sale of investments and fixed assets, principally on the disposal of the Group's stakes in One2One, Bouygues and Bezeq.

Gearing (net debt to shareholders' funds) has fallen to 16% mainly as a result of the cash received on disposals. This gearing measure takes into account 100% of the debt within the Group's partly owned subsidiaries. Taking minorities into account, gearing would have been 11%. Interest cover was eight times on profit before tax, exceptional items and amortisation; 27 times including exceptional items and amortisation.

Dividends

The Directors have recommended a final dividend of 10.5 pence per ordinary share – an increase of 11.7% over the previous year. This brings the total dividend for the year to 15.0 pence per share, an increase of 11.1%. The total cost of the dividend is £366 million.

Year 2000 readiness

To address the risks associated with the much publicised 'millennium bug' or inability of computer systems to cope with the new century date change and leap year, the Cable & Wireless Millennium Programme was established in June 1996. This comprehensive, global programme required all of the Group's systems and network element tests to conform to the requirements for year 2000 functionality and performance, as set out by The British Standards Institution (BSI) in PD 2000-1.

All Cable & Wireless businesses participating in the programme reported their major services to be unaffected by the millennium transition and the leap year.

This is a Year 2000 readiness disclosure of Cable and Wireless plc.

European monetary union

The Government has stated an intention in principle to enter EMU, subject to a referendum and the UK meeting defined economic criteria.

Last year a small corporate team, together with representatives from each of the businesses, led a structured programme to consider the strategic and operational implications and develop appropriate plans.

During the year the process was devolved to the operating units and has moved forward. All operating entities within the current euro zone will fully account in euros from 1 April 2000 and all the necessary system upgrades and changes have been made. All the euro zone entity billing systems are euro compatible. All funding into the euro zone is being converted into euro denomination. Although material steps have been taken, the Group is continuing to delay any significant expenditure on EMU preparations in the UK until the timing and circumstances of entry become clearer.

The expectation of management that the introduction of the euro will have no material impact on the Group's financial position has not changed.

Directors' Report

To be presented to the Seventy First Annual General Meeting to be held at The Queen Elizabeth II Conference Centre, Broad Sanctuary, Westminster, London, SW1P 3EE on Friday 7 July 2000 at 11.00am.

Principal activities and business review

Cable & Wireless is one of the world's leading international telecommunications groups, operating through subsidiaries, branches, associates and joint ventures in the United Kingdom and overseas. It provides, to both business and domestic users, services which include telephone, internet, cable television, multimedia and data transmission, making use of the most modern fixed line and mobile technology available. It has operations in 70 countries and employs over 54,000 people. The Cable & Wireless Group (the Group) also provides and manages communication facilities and services for public and private customers and provides telecommunications consultancy world-wide.

Turnover of the Group and its share of joint ventures and associates grew by 6% to £9,668m. Group turnover, the turnover of the Company and its subsidiaries, increased by 16% to £9,201m, mainly from acquisitions and growth in non-international revenues in all the Group's major markets. Total operating profit before exceptional items and amortisation of goodwill reduced by 28% to £1,274m. Profit before tax and exceptional items and amortisation of goodwill reduced by 32% to £1,122m.

Further details of the Group's performance during the year are contained in the Operating and Financial Review on pages 20 to 29.

Share capital

Details of shares issued during the year are shown in note 22 to the accounts.

Acquisitions and disposals

On 15 June 1999 the Group acquired a further 80% of Cable & Wireless IDC (formerly International Digital Communications) Inc. for cash consideration of Yen 55.2bn (£288m). This increased the Group's holding in Cable & Wireless IDC to 97.7%.

During the year the Group acquired 11 European Internet Service Providers (ISPs) for a total consideration of £310m. These comprised Internet Network Services Ltd (UK), PI.SE (Sweden), Xpoint (Austria), online internet (Belgium), ISDnet (France), UNIDATA and DSLogic-DSNet (Italy), grupo INTERCOM (Spain), agri.ch, Petrel Communications and E-Media (Switzerland).

On 4 January 2000 the Group also acquired a Spanish network integrator, Case Technology SA and the business of another network integrator, Racal Datacom BV (Netherlands), was acquired on 20 January 2000.

Since the year end, the Group has acquired an Irish network integrator, which will be renamed Cable & Wireless Topology, from Lake Holdings Ltd. The Group has additionally acquired Jaguar Communications plc, a UK based network integrator business.

On 2 July 1999 the Group sold its 20% stake in Bouygues Telecom to the existing shareholders, Bouygues SA, for £700m, realising a profit of £524m.

On 2 July 1999 the Group sold its Global Marine business to Global Crossing Ltd for a cash consideration of £450m, realising a profit of £301m.

On 6 August 1999 the Group disposed of its 50% interest in One2One to Deutsche Telekom for £3.45bn in cash, realising a profit of £3.4bn.

On 6 December 1999 the Group sold its 19.61% interest in Bezeq – The Israel Telecommunications Corporation, to Zeevi Communications Holdings Ltd for consideration of US$630m (£394m), realising a profit of £149m.

During the year the Group sold its mobile telephony interests in Japan to Vodafone Airtouch for a total consideration of US$411m (£254m). The 8% holding in Tokyo Digital Phone and the 7.2% in Kansai Digital Phone and Tokai Digital Phone were disposed of on 22 September 1999. The disposals gave rise to a total profit of US$389m (£235m).

Future developments

The Directors will continue to transform the Group into the world's leading global internet carrier. The focus on business customers and the rapidly expanding market for Internet Protocol (IP) and data services will continue to be the priority.

Global reach will be combined with local access. Local operations in key business markets will be integrated with a global capability in customer services, network, technology and product development.

Expansion will be concentrated in the US, Europe and Japan with the Group's ongoing disposal programme releasing funds for investment.

Results and dividends

The Group's profit for the year after taxation and minority interests amounted to £3,724m. The Directors recommend a final dividend of 10.5 pence per Ordinary Share payable to Ordinary Shareholders on 1 September 2000, making a total dividend of 15.0 pence per Ordinary Share, an increase of 11% over the 1999 dividend of 13.5 pence per Ordinary Share. Based on this recommendation the following have been paid and provided for as dividends for the year ended 31 March 2000.

	£m
Ordinary dividends	
Interim paid	110
Final proposed	256

Directors

The following served as Directors during the year under review: Sir Winfried F W Bischoff, Linus W L Cheung, Robert E Lerwill, Dr Janet P Morgan, David P Nash, Stephen R Pettit, Sir Ralph Robins, The Hon Raymond Seitz, David R Varney (appointed 11 May 1999) and Graham M Wallace. David R Varney resigned as a Director of the Company on 20 April 2000.

Biographical details for the Directors are set out on page 17.

In accordance with Articles 110 and 111 Sir Winfried F W Bischoff, Linus W L Cheung, Robert E Lerwill, David P Nash and Sir Ralph Robins retire at the 2000 Annual General Meeting of the Company and, being eligible, offer themselves for re-election.

The unexpired portions of the service contracts of the Directors offering themselves for re-election are disclosed on page 31.

Disclosable interests

Except as disclosed on page 36 the Directors have no interest in the shares of the Company's subsidiaries. The beneficial interests of the Directors and their families in the shares of the Company are shown in the Remuneration report on page 36.

Substantial shareholdings

Except for the holdings of Ordinary Shares listed below, the Directors are not aware of any person holding 3% or more of the Ordinary Share capital of the Company at 16 May 2000, the latest practicable date prior to the issue of this report.

	Number of Cable & Wireless Ordinary Shares	Percentage of issued Ordinary Share capital
Shareholder		
Schroder Investment Management plc	112,505,783	4.61%
Prudential Corporation plc	107,932,589	4.42%
National City Nominees Ltd	91,408,804	3.75%
Mercury Asset Management Group Ltd	90,171,730	3.70%
Legal & General Investment Management Ltd	78,601,781	3.22%

Employment policies

The Group operates throughout the world and therefore has developed employment policies that meet local conditions and requirements. These policies are based on the best traditions and practices in any given country in which it operates. The Group continues to give particular attention to the employment of disabled people. Applicants who are disabled and those who become disabled during employment are offered the widest range of training and opportunities appropriate to their skills.

As a global telecommunications group, great emphasis is placed on effective employee communications and direct communication programmes have been established. The Group values the involvement of its employees and continues to keep them informed on matters affecting them as employees and factors relevant to the performance of the Group. Employee representatives are consulted regularly on a wide range of issues affecting their current and future interests. The Group considers that the establishment of the right priorities and environment for people is essential for their performance and development and to the future of the Group.

Charitable and political donations and community responsibility

In the United Kingdom £3m was donated for charitable purposes. World-wide, including the United Kingdom, the total expenditure in donations and sponsorship for the benefit of the community amounted to £7m. The Company has made no political donations either in the United Kingdom or overseas.

Payments to suppliers

In the United Kingdom, the Group agrees payment terms with its suppliers when it enters into binding purchase contracts. The Group seeks to abide by the payment terms agreed with suppliers whenever it is satisfied that the supplier has provided the goods or services in accordance with the agreed terms and conditions. The Group seeks to treat all its suppliers fairly and has a standard which deals specifically with the payment of suppliers.

The Company had 28 days' purchases outstanding at 31 March 2000 based on the average daily amount invoiced by suppliers during the year ended 31 March 2000.

Research and development

The Group continues to maintain associations with, and support, key universities and research institutions around the world which have relevant research capabilities. For example, the Group has access to the telecommunications research establishments of Nortel Technology and Bell Communications Research. In addition, the Group has established a number of key supplier agreements to gain early visibility of emerging technologies. Costs charged to operating profit, including the cost of Group development programmes and the support for research institutions, amounted to £11m (1999 – £5m).

Included within capital expenditure for the year is £1m (1999 – £19m) of successful technical development which formed an integral part of capital projects.

Remuneration report

The Remuneration Committee considers that the Executive Directors' packages are fair and reasonable for the responsibilities involved and sufficiently dependent on achievement to attract, retain and motivate directors of the quality required. Details of Directors' remuneration, pension benefits and share incentives are given on pages 31 to 36. The membership of the Remuneration Committee is set out on page 37.

Service contracts

Executive Directors have two year rolling contracts. These contracts are reviewed on an annual basis. The Remuneration Committee has noted the Combined Code's recommendation for one year service contracts but believes that in the case of your Company, which operates in a highly competitive and international environment, a two year term is both appropriate and necessary to attract and retain individuals of the necessary calibre. Any compensation payments for termination would be subject to mitigation.

The Chairman and Non-executive Directors, not being employees, have no service contracts with the Company.

As at 16 May 2000, the unexpired terms of the service contracts of each of those Directors seeking re-election at the Company's 2000 Annual General Meeting are as follows:

	Unexpired term
Sir Winfried FW Bischoff	No service contract
Sir Ralph Robins	No service contract
Linus WL Cheung	2 years
Robert E Lerwill	2 years
David P Nash	No service contract

Base salary

The base salary for Graham M Wallace is set by reference to the total remuneration for chief executives in a comparator group of major international telecommunications companies which recognises their value in a global employment market.

Base salaries for the other Executive Directors have been aligned to the median of comparator groups comprising directors and senior management of major international telecommunications and technology companies with similar profiles to Cable and Wireless plc and companies in the Financial Times Stock Exchange 100 Index (FTSE 100).

The Company takes external professional advice in determining base salaries. Movements in base salary reflect a combination of market factors, personal performance and business contribution.

Non-executive Directors' fees are determined by the Board as a whole and are at the rate of £30,000 per annum. An additional £10,000 per annum is paid to Non-executive Directors with additional responsibilities such as chairmanship of Board Committees or directorships of other Group subsidiaries. Sir Ralph Robins receives fees for his role as Chairman of the Company, which were set at the time of his appointment as Chairman of the Board, and also for his role as Chairman of Cable & Wireless Optus.

In addition to his Non-executive Director's fees of £30,000 per annum, The Hon. Raymond Seitz receives £30,000 per annum in respect of his Directorship of Cable & Wireless HKT Limited and £5,000 per annum in respect of his Chairmanship of the Community Investment Committee.

David P Nash receives an additional £60,000 per annum in respect of his Chairmanship of the Cable & Wireless Communications plc Board.

There are no elements of remuneration, other than basic salary, which are treated as being pensionable. The Non-executive Directors do not receive any pension benefits.

Short term incentive plan

Awards under the Short Term Incentive Plan are paid out in cash and are linked to the Group's profit after tax, cashflow, turnover and customer service against preset targets.

The maximum award payable under the Short Term Incentive Plan will be equal to 75% of salary. Maximum awards will only be payable if the Group's profit after tax, cash flow and turnover are 110% or more of preset targets.

Long term incentive plan

The Long Term Incentive Plan (the LTIP) makes awards in the form of an option over a maximum fixed number of shares exercisable over a seven year period on payment of a nominal fee by the participant. The minimum award (equivalent to 10% of salary) will vest if rolling average real (inflation adjusted) EPS growth (basic EPS adjusted for consistency with the prior year and normalised) over a three year period is 2.5% per annum. The maximum award (equivalent to 60% of salary) will vest if rolling average real EPS growth over a three year period is 15% per annum or more.

The LTIP is operated in conjunction with an Employees' Share Ownership Plan Trust (the Trust). The purpose of the Trust is to purchase and hold Ordinary Shares in the Company and to distribute such shares to employees under the terms of the plan and any other future employee share scheme arrangement operated by it. The Trust may acquire such Ordinary Shares either by purchasing Ordinary Shares in the market or by the Company issuing and allotting new Ordinary Shares to the Trust. To date all shares acquired by the Trust have been purchased in the market.

No awards have been made under the LTIP since 1998 and the plan will close following vesting of the 1998 awards in 2001.

Performance share plan

This is a new plan introduced with effect from 1 April 1999 to replace the LTIP.

Awards under the Cable and Wireless plc Performance Share Plan (the PSP) are made in shares. The PSP is operated in conjunction with the Trust.

The performance requirements applying to the PSP are based on Total Shareholder Returns (TSR) measured against a comparator group of global telecommunications companies. Full vesting will only occur if TSR performance, measured over a three year period from the date of that award, is in the upper quartile of this group. 50% of awards will vest if performance is at the median level. A sliding scale operates if performance is between these levels. If the median level performance target is not met by the third anniversary of the date of award, the award will lapse. To underpin TSR there must also be real growth in both EBITDA (earnings before interest, tax, depreciation and amortisation) and turnover.

Awards under the PSP are made annually based on company and personal performance. The first notional awards under the PSP were made in 1999 and will vest in 2002.

Executive Directors can be allocated up to 100% of their salary in shares under the PSP in any single financial year.

Share options

Options are granted to employees throughout the Group including Executive Directors. Whilst some employees receive a planned award, additional options may be available to reward key skills, high potential or in response to market pressure.

At the 1999 AGM, the rules of the C&W Senior Employees' Share Option Scheme (SESOS) were amended to permit additional options to be granted to Global Senior Managers in special circumstances. Each case, in which it is intended to apply this amendment, requires the approval of the Remuneration Committee.

The SESOS scheme provides a global focus for the reward structure for Global Senior Managers, including Executive Directors. Share option grants will be made annually based on personal performance and at management discretion.

For all options under this scheme to become exercisable, TSR must be in the upper quartile of the relevant constituents of the FTSE 100 on the third, fourth or fifth anniversaries of the date of the grant of the option. 50% of options will become exercisable if TSR is at the median level, with vesting for performance between these levels taking place on a sliding scale. If these targets have not been met by the fifth anniversary of the date of the grant, the options will lapse. To underpin TSR there must also be real growth in both EBITDA and turnover.

Minimum shareholding requirement

The Executive Directors are required to hold Cable and Wireless plc shares to the value of twice their base salary. This level is to be reached within a period of three years from 1 July 1999 or, for any Executive Director appointed after 1 July 1999, within three years of the date of appointment. This shareholding may be built up through the retention of shares awarded under the Long Term Incentive Plan and the Performance Share Plan, and through the exercise of share options.

Directors' remuneration

The aggregate emoluments of the Directors of the Company were as follows:

	2000 £'000	1999 £'000
Non-executive Directors' fees	**282**	233
Non-executive Chairman's emoluments – from 26 June 1998	**250**	190
– up to 26 June 1998	**–**	94
Executive Directors' emoluments	**2,214**	2,866
Short term performance related annual bonuses	**1,098**	685
Aggregate emoluments	**3,844**	4,068

The following table shows the Directors who served during the year or in the previous year and an analysis of the remuneration of the individual Executive Directors and fees of individual Non-executive Directors:

	2000					1999
	Salary and fees £	Short term performance related annual bonus £	Allowances and benefits £	Gain on exercise of options £	Total £	Total £
Sir Winfried F W Bischoff	40,000	–	–	–	**40,000**	40,000
Richard H Brown (until 10 December 1998)	–	–	–	–	**–**	705,919
Linus W L Cheung	350,265	145,640	398,029	–	**893,934**	1,588,764
Robert E Lerwill	342,846	239,649	30,120	1,156,536	**1,769,151**	658,909
Dr Janet P Morgan	40,000	–	9,908	–	**49,908**	50,905
David P Nash	100,000	–	–	–	**100,000**	57,500
Rodney J Olsen (until 31 March 1999)	–	–	–	–	**–**	1,271,056
Stephen R Pettit	319,661	223,443	25,833	1,077,271	**1,646,208**	761,094
Sir Ralph Robins	250,000	–	–	–	**250,000**	198,056
The Hon. Raymond Seitz	65,000	–	–	–	**65,000**	76,559
Sir Brian Smith (until 26 June 1998)	–	–	–	–	**–**	94,071
Graham M Wallace (from 8 September 1998)	700,100	489,370	46,999	–	**1,236,469**	508,234
David R Varney (from 11 May 1999)	26,694	–	–	–	**26,694**	–
	2,234,566	1,098,102	510,889	2,233,807	**6,077,364**	6,011,067

The format of this table has been re-presented (compared with that provided last year) to include gains on exercise of share options. The award under the Long Term Incentive Plan Transitional Scheme in respect of the year ended 31 March 1999 took the form of shares, the value of which is included in the comparatives. The LTIP award in respect of the year ended 31 March 2000 will be in the form of share options, as detailed on page 34.

Allowances and benefits include such items as fuel and medical insurance. Linus W L Cheung's allowances and benefits include housing and related benefits, which it is common practice to pay on behalf of senior executive officers in Hong Kong. In respect of the year ended 31 March 1999, Linus W L Cheung's remuneration comprised emoluments of £818,808, gain on exercise of share options of £581,842 and shares awarded under the Long Term Incentive Plan Transitional Scheme with a value of £188,114.

Sir Ralph Robins' fees include amounts in respect of his role as Chairman of the Company from 26 June 1998 and his role as Chairman of Cable & Wireless Optus from 17 December 1998.

Payments totalling £45,516 were made to Sir Brian Smith, a former Non-executive Chairman of the Company, for his continuing Chairmanship of Cable & Wireless HKT Limited.

Directors' remuneration continued

The following table shows the options to be awarded to Directors under the Long Term Incentive Plan 1997. Comparative figures for 1999 show awards made under the Long Term Incentive Plan Transitional Scheme, which were made in the form of actual shares:

	2000			1999
	Number under LTIP Dividend Award Supplement	Number under LTIP	Total number	Number
Linus W L Cheung	1,956	37,000	**38,956**	22,262
Robert E Lerwill	1,776	33,605	**35,381**	20,219
Stephen R Pettit	1,615	30,550	**32,165**	18,381
Graham M Wallace	2,020	38,187	**40,207**	14,822
	7,367	139,342	**146,709**	75,684

In addition Rodney J Olsen, a former Director of the Company, will receive 34,308 share options under the Long Term Incentive Plan 1997, including 1,722 shares under the Dividend Award Supplement.

Awards of options under the Long Term Incentive Plan 1997 to the Directors were determined on 16 May 2000. These options will be awarded to the Directors on 17 May 2000 and represent the full entitlement of awards under the Long Term Incentive Plan 1997. The closing mid-market share price on 16 May 2000 was 969.0p. Notional allocations under the Long Term Incentive Plan 1997 are shown in the table of Directors' share options and share incentive plans on page 35.

The Dividend Award Supplement relates to dividends that would have been paid on the actual award of shares under the Long Term Incentive Plan 1997 during the performance period. The cash dividends under the plan are reinvested in additional shares at the prevailing market price as at the payment date of the respective dividends.

Directors' pension entitlement per annum

	Robert E Lerwill £	Stephen R Pettit £	Graham M Wallace £
Accrued pension at 1 April 1999	23,519	37,094	31,680
Increase in accrued pension during year as a result of inflation	616	972	830
Adjustment to accrued pension as a result of salary increase, other than for inflation	783	3,532	11,938
Increase in accrued pension as a result of an additional period's service	6,097	8,183	20,515
Accrued pension at 31 March 2000	**31,015**	**49,781**	**64,963**
Employee contributions during year	–	–	–
Age at 31 March 2000	48	48	51

Linus W L Cheung is a member of the Hong Kong pension scheme which provides a lump sum entitlement. At 31 March 2000 Linus W L Cheung's lump sum entitlement, if he had left service at that date, was £324,730. The lump sum entitlement increased by £83,166 in the year ended 31 March 2000.

The Directors are in defined benefit pension schemes. In common with other employees, the normal retirement age is 60. Pensions in payment are increased annually in line with inflation. A lump sum is payable on death in retirement equal to the balance, if any, of five years' instalments of pension. The remaining pension reduces to two thirds and is payable to a surviving spouse or other dependants.

A lump sum equal to four times final remuneration is payable on death prior to retirement, plus a pension is payable to a spouse or dependants equal to two thirds of the pension that would have been paid to the Director had he remained in service to the normal retirement date based on the final remuneration at the date of death.

If a Director's employment is terminated due to incapacity, an immediate pension is payable equal to the pension that would have been paid from the normal retirement date based on the final remuneration at the date of incapacity.

An amount of £1,800,000 (1999 – £1,520,000) is included in provisions to cover the cost of former Directors' pension entitlements.

Directors' share options and share incentive plans

At 31 March 2000, the undermentioned Directors had the following options to acquire Ordinary Shares of the Company under the terms of the C&W Employee Savings Related Share Option Scheme (SAYE), C&W Global Employee Savings Related Share Option Scheme (GSAYE), the C&W Revenue Approved Share Option Scheme (RESOS) and the C&W Senior Employees' Share Option Scheme (SESOS), and notional allocations of shares under the C&W Long Term Incentive Plan Transitional Scheme 1999 (LTIPTS99), notional allocations of options over shares under the C&W Long Term Incentive Plan (LTIP) and contingent awards of shares under the C&W Performance Share Plan (PSP):

Scheme	Date of grant	Option price	Exercisable from	to	Linus W L Cheung	Robert E Lerwill	Stephen R Pettit	Graham M Wallace
SAYE	23/06/94	341.84p	01/09/99	28/02/00	–	–	2,018	–
SESOS	13/06/95	413.70p	13/06/00	12/06/02	65,000	–	–	–
SAYE	03/07/95	336.56p	01/09/00	28/02/01	–	–	3,075	–
SESOS	03/07/96	420.50p	03/07/99	02/07/03	141,653	–	136,304	–
RESOS	08/01/97	472.40p	08/01/00	07/01/07	–	6,350	–	–
SESOS	08/01/97	472.40p	08/01/00	07/01/04	–	226,503	–	–
LTIPTS99 (notional)	01/04/97	0.00p	12/05/99	–	37,000	33,605	30,550	38,187
LTIP (notional)	01/04/97	0.00p	17/05/00	31/03/07	37,000	33,605	30,550	38,187
SAYE	30/05/97	394.48p	01/09/04	28/02/05	–	1,977	–	–
SESOS	13/06/97	553.30p	13/06/00	12/06/04	74,578	–	89,000	169,578
RESOS	13/06/97	553.30p	13/06/00	12/06/07	5,422	–	–	5,422
LTIP (notional)	01/04/98	0.00p	10/05/01	31/03/08	27,806	25,651	21,844	30,060
SESOS	08/06/98	704.60p	08/06/01	07/06/05	16,000	40,000	20,000	40,000
SESOS	25/02/99	848.80p	25/02/02	24/02/06	–	–	–	182,597
Total at 1 April 1999					**404,459**	**367,691**	**333,341**	**504,031**
Granted during the year								
PSP (contingent award)	01/04/99	0.00p	31/03/02	–	50,504	42,998	35,939	89,847
SESOS	19/05/99	810.70p	19/05/02	18/05/06	45,900	43,150	32,100	88,800
RESOS	19/05/99	810.70p	19/05/02	18/05/09	–	–	3,700	–
GSAYE	07/06/99	625.40p	01/09/04	28/02/05	2,692	–	–	–
SAYE	07/06/99	625.40p	01/09/04	28/02/05	–	–	–	2,698
SAYE	08/12/99	687.68p	01/03/05	31/08/05	–	1,472	981	–
Exercised or awarded during the year								
SAYE	23/06/94	341.84p	01/09/99	28/02/00	–	–	(2,018)	–
SESOS	03/07/96	420.50p	03/07/99	02/07/03	–	–	(100,000)	–
SESOS	08/01/97	472.40p	08/01/00	07/01/04	–	(113,650)	–	–
RESOS	08/01/97	472.40p	08/01/00	07/01/07	–	(6,350)	–	–
LTIPTS99	01/04/97	0.00p	12/05/99	–	(22,262)	(20,219)	(18,381)	(26,578)
Lapsed during the year								
LTIPTS99	01/04/97	0.00p	12/05/99	–	(14,738)	(13,386)	(12,169)	(11,609)
Total at 31 March 2000					**466,555**	**301,706**	**273,493**	**647,189**

Directors' share options and share incentive plans continued

Stephen R Pettit exercised 2,018 options on 24 September 1999, on which day the closing mid-market price of the shares was 665.0p. Robert E Lerwill exercised 120,000 options on 2 March 2000 and, on the same day, sold 120,000 shares at a price of 1436.18p. Stephen R Pettit exercised a further 100,000 options on 3 March 2000 and, on the same day, sold 100,000 shares at a price of 1491.25p. The closing mid-market price of the shares at 31 March 2000 was 1178.0p (1999 – 774.0p). The highest closing mid-market price during the year was 1561.5p and the lowest closing mid-market price was 658.0p. There were no changes to the Directors' share options and share incentive plans in the period from 31 March 2000 to 16 May 2000.

Details of the previous Long Term Incentive Plan and current Performance Share Plan are given on page 32. The allocation of notional shares is based on the share price at 1 April 1997 of 491.0p and the share price at 1 April 1998 of 748.0p for the 1997 and 1998 Long Term Incentive Plans respectively. The allocation of contingent shares under the Performance Share Plan for the 1999 Scheme is based on a share price at 1 April 1999 of 779.1p.

In December 1999 Graham M Wallace, Robert E Lerwill, Stephen R Pettit and Linus W L Cheung were prohibited from being granted options under the Company's share option schemes as a result of knowledge of unpublished price sensitive information. The Company wishes the Directors to be fairly treated and accordingly the Remuneration Committee has agreed that on 25 May 2000 the following options be granted as a catch up grant of options under the C&W Senior Employees' Share Option Scheme:

	Number of options	Exercise dates
Graham M Wallace	71,370	25/05/03 to 24/05/07
Robert E Lerwill	35,132	25/05/03 to 24/05/07
Stephen R Pettit	33,096	25/05/03 to 24/05/07
Linus W L Cheung	34,996	25/05/03 to 24/05/07

Directors' shareholdings

The beneficial interests of the Directors and their families in the Ordinary Shares of the Company were as follows:

	At 1 April 1999 (or date of appointment if later)	Shares acquired	Shares disposed	At 31 March 2000
Sir Winfried F W Bischoff	10,000	–	–	**10,000**
Linus W L Cheung	2,683	22,262	–	**24,945**
Robert E Lerwill	22,501	140,219	(140,088)	**22,632**
Dr Janet P Morgan	4,378	–	–	**4,378**
David P Nash	1,042	17	–	**1,059**
Stephen R Pettit	9,254	120,401	(107,352)	**22,303**
Sir Ralph Robins	4,000	–	–	**4,000**
The Hon. Raymond Seitz	2,548	41	–	**2,589**
David R Varney (appointed 11 May 1999)	–	961	–	**961**
Graham M Wallace	10,000	26,994	(10,631)	**26,363**

There were no changes to the Directors' shareholdings between 31 March 2000 and 16 May 2000. Awards of options under the Long Term Incentive Plan 1997 to the Executive Directors were determined on 16 May 2000 and will be awarded on 17 May 2000 as detailed on page 34. Following these awards the Executive Directors will exercise the options and acquire the shares on 17 May 2000.

Corporate governance

Companies are directed and controlled by corporate governance. Good governance has been and remains the responsibility of the whole Board. The Combined Code – Principles of Good Governance and Code of Best Practice (the Combined Code) was published by the London Stock Exchange in June 1998. This statement describes how the Company applies the principles and complies with the provisions of the Combined Code.

Compliance

The Board confirms that the Company was fully compliant with all the provisions of section 1 of the Combined Code throughout the period with the exception of: (1) Directors' service contracts, as set out on page 31 and (2) the requirement that all Directors seek re-election at intervals of not more than three years. The 1999 Annual General Meeting held on 2 July 1999 approved the amendment of the Company's Articles of Association to comply with this latter aspect of the Combined Code.

The statement of Directors' Responsibilities for preparing the financial statements is set out on page 39.

The Board

The Board of Directors (the Board) generally meets monthly and concentrates mainly on strategy, direction and financial performance. The Board is chaired by Sir Ralph Robins and Graham M Wallace is the Chief Executive. Details of the full Board are set out on page 17. Sir Winfried F W Bischoff is Deputy Chairman and is the recognised Senior Independent Director. For the purposes of the Combined Code, the Board considers that all of the Non-executive Directors are independent, namely Sir Winfried F W Bischoff, Dr Janet P Morgan, David P Nash, Sir Ralph Robins and The Hon Raymond Seitz. The Board has a formal schedule of matters reserved to it for decision, but also delegates specific responsibilities to Board committees, notably Audit, Remuneration and Nomination Committees. Directors receive Board and committee papers several days in advance of Board and committee meetings and also have access to the advice and services of the Company Secretary. The Board has adopted a procedure whereby Directors may, in the furtherance of their duties, take independent professional advice on any matter at the Company's expense.

The Group operates through Boards of Directors of subsidiaries, joint ventures and associates with clear reporting lines and delegated powers.

Board committees

Remuneration Committee

The Remuneration Committee, on behalf of the Board, makes recommendations to the Board, within agreed terms of reference, on the Company's framework of executive remuneration and cost. It also determines, on the Board's behalf, the Executive Directors' remuneration by reference to individual performance and market data.

The Remuneration Committee comprises all the Non-executive Directors, namely: Sir Winfried F W Bischoff (Chairman), Dr Janet P Morgan, David P Nash, Sir Ralph Robins and The Hon. Raymond Seitz.

Nomination Committee

The Nomination Committee reviews the composition of the Board and recommends to the Board appointments of new Executive and Non-executive Directors. The Chairman Sir Ralph Robins chairs the Committee which also comprises the Chief Executive Graham M Wallace and any two of the Non-executive Directors of the Company named above.

Group Audit Committee

The Group Audit Committee has terms of reference modelled closely upon those recommended in the Combined Code. It comprises all the Non-executive Directors named above and is chaired by David P Nash. It meets regularly to receive and review reports from the Group internal audit function, from the external auditors and from management. As part of its duties the Group Audit Committee receives and considers reports on the system of internal financial control. Audit committees have also been formed in significant Group companies to act as a focus for local control issues. These committees report at least once a year to the Group Audit Committee on the results of their work.

Annual General Meeting

Business at the Company's Annual General Meeting (AGM) will cover the Annual Report and Accounts, final dividend, re-election of Directors, the re-appointment of the auditors and the authorisation of the Directors to set the auditors' fees. Special business will cover amendments to the rules of the Cable & Wireless share option schemes and seeking a general authority for the Directors to be able to purchase the Company's Ordinary Shares.

Full details and an explanation of these resolutions are set out in the Notice of Meeting and Chairman's Letter. Voting at the AGM is by way of a show of hands by members present at the meeting, unless a poll is validly demanded. After each vote by show of hands, the level of proxies lodged on each resolution and the balance of proxy votes for and against the resolution is announced. At the AGM a business review is presented to shareholders. All Directors attend and are available to answer shareholders' questions.

Apart from the AGM, the Company communicates with its shareholders by way of the Annual Report and Accounts or the Annual Review and Summary Financial Statement. In addition the Company communicates with its institutional shareholders through a combination of analysts' briefings throughout the year but particularly at the interim and year end results stage. The Company clearly recognises the importance of maintaining a regular dialogue with shareholders to ensure that the Company's strategy and performance is understood.

Statement on internal control

The Board is ultimately responsible for the Group's system of internal control and for reviewing its effectiveness. However, such a system is designed to manage rather than eliminate the risk of failure to achieve business

Statement of internal control continued
objectives, and can provide only reasonable and not absolute assurance against material misstatement or loss. The Directors have reviewed the effectiveness of internal financial controls.

The Combined Code introduced new requirements that the Directors review the effectiveness of all internal controls, including operational controls extending the previous requirement to report on internal financial controls.

Guidance for Directors on internal control 'Internal Control: Guidance for Directors on Combined Code' (the Turnbull guidance) was published in September 1999, however, the Directors have taken advantage of the transitional rules of the UK listing authority and have continued to review and report upon internal financial controls. The Board confirms that they have established procedures necessary to implement the Turnbull guidance such that they can fully comply with it for the accounting period ending 31 March 2001.

Key features of the Group's system of internal financial control are set out below.

Control environment

The Directors consider that sound internal control is best achieved by a process that is firmly embedded within the Group's operations within the context of clear guidance from the centre. Accordingly, the Group has developed a process through which management is responsible for the identification and evaluation of significant risks applicable to their areas of business together with the development of appropriate actions for their management.

A structure of control self-assessment and hierarchical reporting has been established which provides for a documented and auditable trail of accountability. This structure which has been applied throughout the Group's operations, is facilitated by Group Risk Management and provides for successive assurances to be given at increasingly higher levels of management and, finally, to the Board.

Monitoring of controls

The Group internal audit function has a formal charter approved by the Board which describes its purpose, authority and responsibility. It supports the Directors in assessing key internal controls through a structured review programme.

Additionally, the finance and general management of operating units are required to acknowledge in writing that their financial reporting is based on sound data. They are also required to acknowledge, in writing, that they are fully aware of their responsibility to operate internal control systems and that their results are properly stated in accordance with Group and statutory requirements.

Going concern

After making enquiries the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future and therefore continue to adopt the going concern basis in preparing the accounts on pages 41 to 78.

By order of the Board of Directors.

K K Claydon
Secretary
16 May 2000

Directors' Responsibilities

In respect of the preparation of the financial statements

Company law requires the Directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and of the Group and of the profit or loss for that period. In preparing those financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The Directors are responsible for keeping proper accounting records which disclose, with reasonable accuracy at any time, the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

Report of the Auditors

KPMG Audit Plc, to the Members of Cable and Wireless plc

We have audited the financial statements on pages 41 to 78.

Respective responsibilities of Directors and auditors

The Directors are responsible for preparing the Annual Report and Accounts. As described on page 39, this includes responsibility for preparing the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board, the Listing Rules of the Financial Services Authority, and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law or the Listing Rules regarding Directors' remuneration and transactions with the Company is not disclosed.

We review whether the statement on pages 37 to 38 reflects the Company's compliance with the seven provisions of the Combined Code specified for our review by the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Company's corporate governance procedures or its risk and control procedures.

We read the other information contained in the Annual Report and Accounts, including the corporate governance statement, and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

Basis of audit opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material mis-statement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group as at 31 March 2000 and of the profit of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc
Chartered Accountants
Registered Auditor
London
16 May 2000

Consolidated Profit and Loss Account

For the year ended 31 March

		Continuing operations					
				Ongoing operations			
	Note	Businesses sold £m	Businesses to be sold* £m	Existing £m	Acquisitions £m	2000 £m	1999 £m
Turnover of the Group including its share of joint ventures and associates	3	201	2,947	6,200	320	**9,668**	9,120
Share of turnover of – joint ventures	16	(167)	–	(229)	–	**(396)**	(1,064)
– associates	16	(3)	–	(68)	–	**(71)**	(112)
Group turnover	3, 4	31	2,947	5,903	320	**9,201**	7,944
Operating costs before depreciation, amortisation and exceptional items	5	(38)	(1,897)	(4,508)	(291)	**(6,734)**	(5,258)
Exceptional items	10	–	(77)	–	–	**(77)**	46
Operating costs before depreciation and amortisation	5	(38)	(1,974)	(4,508)	(291)	**(6,811)**	(5,212)
EBITDA		(7)	973	1,395	29	**2,390**	2,732
Depreciation before exceptional items	5	(4)	(396)	(833)	(34)	**(1,267)**	(1,023)
Exceptional items	10	–	(436)	(839)	(18)	**(1,293)**	–
Depreciation	5	(4)	(832)	(1,672)	(52)	**(2,560)**	(1,023)
Amortisation of capitalised goodwill	5, 14	–	(6)	(121)	(53)	**(180)**	(61)
Group operating (loss)/profit	4	(11)	135	(398)	(76)	**(350)**	1,648
Share of operating (losses)/profits in joint ventures	16	(2)	–	64	(3)	**59**	103
Share of operating profits in associates	16	–	–	15	–	**15**	20
Total operating (loss)/profit		(13)	135	(319)	(79)	**(276)**	1,771
Exceptional profits less (losses) on sale and termination of operations	10					**271**	–
Profits less (losses) on disposal of fixed assets before exceptional items	9					**3**	170
Exceptional items	10					**4,181**	198
Profits less (losses) on disposal of fixed assets						**4,184**	368
Net interest and other similar income – Group	11					**(135)**	(232)
– joint ventures	16					**(22)**	(85)
– associates	16					**2**	–
Profit on ordinary activities before taxation						**4,024**	1,822
Tax on profit on ordinary activities	9, 10, 12					**(450)**	(359)
Profit on ordinary activities after taxation						**3,574**	1,463
Equity minority interests	9, 10					**150**	(555)
Profit for the financial year						**3,724**	908
Dividends – interim						**(110)**	(100)
– final (proposed)						**(256)**	(227)
Profit for the year retained	23					**3,358**	581
Basic earnings per share	13					**153.6p**	38.2p
Basic earnings per share before exceptional items and amortisation	13					**19.4p**	33.9p
Diluted earnings per share						**150.9p**	37.5p
Dividends per share						**15.0p**	13.5p

The Group has not discontinued any operations within the meaning of FRS 3 – 'Reporting Financial Performance' during either 2000 or 1999. Therefore Group turnover, operating profit and exceptional items are derived entirely from continuing operations.

*Businesses to be sold comprise Cable & Wireless HKT Limited and the consumer operations of Cable & Wireless Communications plc.

Balance Sheets

At 31 March

	Note	Group 2000 £m	Group 1999 £m	Company 2000 £m	Company 1999 £m
Fixed assets					
Intangible assets – goodwill	14	**1,762**	1,150	**–**	–
Tangible assets	15	**11,682**	11,086	**94**	88
Interest in net assets of joint ventures*	16	**273**	310	**58**	238
Investments in associates	16	**59**	102	**17**	18
Other investments	16	**126**	515	**8,979**	8,130
Total fixed asset investments		**458**	927	**9,054**	8,386
		13,902	13,163	**9,148**	8,474
Current assets					
Stocks	17	**214**	248	**2**	34
Current asset investments		**9**	60	**–**	–
Debtors – due within one year	18	**1,608**	1,565	**300**	227
– securitised gross trade debtors		**333**	439	**–**	–
– less: non-returnable proceeds		**(65)**	(318)	**–**	–
– net securitised trade debtors	18	**268**	121	**–**	–
– due after more than one year	18	**539**	411	**53**	47
Short term deposits	19	**4,567**	1,600	**2,818**	67
Cash at bank and in hand	19	**421**	319	**6**	1
		7,626	4,324	**3,179**	376
Creditors: amounts falling due within one year	20	**4,545**	4,114	**691**	1,233
Net current assets/(liabilities)		**3,081**	210	**2,488**	(857)
Total assets less current liabilities		**16,983**	13,373	**11,636**	7,617
Creditors: amounts falling due after more than one year	20	**5,572**	4,876	**5,268**	4,779
Provisions for liabilities and charges	21	**281**	313	**33**	39
Interest in net liabilities of joint ventures*	16	**5**	187	**–**	–
		5,858	5,376	**5,301**	4,818
Net assets		**11,125**	7,997	**6,335**	2,799
Capital and reserves					
Called up share capital	22	**610**	603	**610**	603
Share premium account	23	**1,589**	1,484	**1,589**	1,484
Profit and loss account	23	**5,897**	2,484	**4,136**	712
Equity shareholders' funds		**8,096**	4,571	**6,335**	2,799
Equity minority interests		**3,029**	3,426	**–**	–
		11,125	7,997	**6,335**	2,799

*Interests in the net assets and net liabilities of joint ventures include the Group's share of gross assets of joint ventures of £615m (1999 – £1,292m) and the Group's share of gross liabilities of joint ventures of £366 m (1999 – £1,336m) – see note 16.

The accounts on pages 41 to 78 were approved by the Board of Directors on 16 May 2000 and signed on its behalf by:

Sir Ralph Robins Chairman

Robert E Lerwill Executive Director, Finance

Consolidated Cash Flow Statement

For the year ended 31 March

	Note	2000 £m	1999 £m
Net cash inflow from operating activities	27	**2,236**	2,602
Dividends from joint ventures		**11**	10
Dividends from associates		**13**	8
		24	18
Returns on investments and servicing of finance			
Interest received		**265**	148
Interest paid		**(447)**	(442)
Interest element of finance lease rentals paid		**(19)**	(17)
Dividends paid to minorities		**(329)**	(351)
		(530)	(662)
Taxation			
UK corporation tax paid		**(88)**	(49)
Overseas tax paid		**(169)**	(220)
		(257)	(269)
Capital expenditure and financial investment			
Security deposit		**–**	(220)
Purchase of tangible and intangible fixed assets		**(3,033)**	(1,989)
Sale of tangible fixed assets		**39**	521
Purchase of investments		**(100)**	(178)
Sale of investments		**1,410**	8
Loans to investments		**–**	(86)
Loans to joint ventures and associates		**(18)**	8
		(1,702)	(1,936)
Acquisitions and disposals			
Receipts from sales of subsidiary undertakings	31	**541**	–
Purchase of shareholdings in subsidiary undertakings	32	**(426)**	(1,176)
Payments to acquire investments in joint ventures and associates		**–**	(10)
Receipts from sales of joint ventures and associates		**3,224**	612
		3,339	(574)
Equity dividends paid to shareholders		**(337)**	(293)
Management of liquid resources			
Movement in short term investments and fixed deposits (net)	30	**(3,080)**	(131)
Financing			
Issue of ordinary share capital – parent		**52**	946
– subsidiary undertakings		**–**	447
Issue costs of shares		**–**	(27)
Net proceeds from issue of loan notes		**–**	423
Capital element of finance lease rental repayments		**(26)**	(40)
Other long term debt issued		**1,245**	2,936
Long term debt repaid		**(931)**	(3,534)
		340	1,151
Increase/(decrease) in cash in the year	28	**33**	(94)

Consolidated Statement of Total Recognised Gains and Losses

For the year ended 31 March

	2000 £m	1999 £m
Profit for the financial year	**3,724**	908
Currency translation differences on foreign currency net investments and related borrowings	**10**	37
Overseas tax charge attributable to current year currency translation differences	**(9)**	(16)
UK tax credit on share options exercised*	**13**	–
Total gains and losses relating to the financial year	**3,738**	929
Prior year adjustment in 1999 – exchange retranslation on Cable & Wireless Optus licence	**–**	22
Total gains and losses since last report	**3,738**	951

* UK tax credit on share options exercised includes a tax credit of £6m relating to the prior year.

Reconciliation of Movements in Equity Shareholders' Funds

For the year ended 31 March

	Group		Company	
	2000 £m	1999 £m	2000 £m	1999 £m
Profit for the financial year	**3,724**	908	**(361)**	219
Dividends – interim	**(110)**	(100)	**(110)**	(100)
– final (proposed)	**(256)**	(227)	**(256)**	(227)
Profit for the year retained	**3,358**	581	**(727)**	(108)
Other recognised gains and losses relating to the year	**1**	21	**4,163**	117
New share capital issued	**87**	950	**87**	950
Adjustment in respect of share options	**23**	–	**13**	–
Adjustment in respect of Cable & Wireless Optus' shares issued at below market price	**–**	4	**–**	–
Goodwill written back	**56**	51	**–**	–
Net increase in equity shareholders' funds	**3,525**	1,607	**3,536**	959
Opening equity shareholders' funds	**4,571**	2,964	**2,799**	1,840
Closing equity shareholders' funds	**8,096**	4,571	**6,335**	2,799

Statement of Accounting Policies

Basis of preparation

The accounts are prepared in accordance with applicable accounting standards and on the historical cost basis. Two new accounting standards have become effective in the year and have been adopted by the Group: FRS 15 – 'Tangible Fixed Assets' and FRS 16 – 'Current Tax'. Neither has had any significant impact on the results or net assets of the Group.

The Directors consider that earnings before interest, tax, depreciation and amortisation (EBITDA) is a standard measure commonly reported and widely used by analysts, investors and other interested parties in the telecommunications industry. Accordingly, the format of the profit and loss account has been amended to provide this information.

Basis of consolidation

The Group accounts comprise a consolidation of the accounts of the Company and all its subsidiaries and include the Group's share of the results and net assets of its associates and gross equity of joint ventures. The accounts of principal subsidiaries, associates and joint ventures are made up to 31 March.

Where subsidiaries, associates or joint ventures have been acquired during the year, goodwill, being the difference between the fair value of consideration given and the fair values attributed to the separable net assets acquired, is capitalised on the balance sheet and amortised through the profit and loss account in equal annual instalments over its estimated useful economic life.

Foreign currencies

Average rates of exchange ruling during the year are used to translate the profit and loss accounts of overseas subsidiaries, associates and joint ventures.

The net investments in the Group's overseas subsidiaries, associates and joint ventures are translated into sterling at rates of exchange ruling at 31 March. Exchange differences resulting from the translation of opening net investments at rates ruling at the beginning and end of the year, together with the differences between profit and loss accounts translated at average rates and rates ruling at 31 March, are dealt with as movements in Group reserves.

Where net investments are matched in whole or in part by foreign currency borrowings, the exchange differences arising on the retranslation of such borrowings are also recorded as movements on Group reserves and any excess taken to the profit and loss account.

Foreign currency assets and liabilities are translated at the rates ruling at 31 March and all other exchange differences are dealt with through the profit and loss account.

Results of operations in hyperinflationary economies are translated using a relatively stable currency as the functional currency. The exchange differences arising from this process are taken to the profit and loss account.

Intangible fixed assets

From 1 April 1998 intangible fixed assets acquired have been recorded at cost and amortised on a straight line basis over their estimated useful life, not exceeding 20 years. Intangible fixed assets are generally goodwill arising on the acquisition of businesses.

Fixed asset investments

Joint ventures and associated undertakings are accounted for in the Group's accounts under the gross equity and equity methods of accounting respectively. Other fixed asset investments in the Group's accounts, and all fixed asset investments in the Company's accounts, are stated at cost less amounts written off in respect of any impairments.

Current asset investments

Current asset investments are stated at the lower of cost and net realisable value.

Deferred tax

The Group provides for deferred tax only when there is a reasonable probability that a liability will arise in the foreseeable future. Where deferred tax is provided, the liability method is used.

Tangible fixed assets and depreciation

Depreciation is provided on the difference between the cost of tangible fixed assets and the estimated residual value generally in equal annual instalments over the estimated useful lives of the assets, except where new networks are rolled out, where depreciation is based on the number of subscribers using the new network compared with pre-determined targets during a pre-maturity period of up to five years. These lives are:

		Lives	Average
Telephone cables and repeaters	– analogue	12 to 20 years	14 years
	– digital	15 years	15 years
Freehold buildings		40 years	40 years
Leasehold land and buildings		up to 50 years or term of lease if less	40 years
Plant		2 to 40 years	10 years
Cableships		up to 30 years	14 years

Freehold land, where the cost is distinguishable from the cost of the building thereon, is not depreciated.

Surpluses and deficits on disposals of tangible fixed assets are determined by reference to sale proceeds and net book values.

Stocks

Stocks of equipment, held for use in the maintenance and expansion of the Group's telecommunications systems, are stated at cost, including appropriate overheads, less provision for deterioration and obsolescence. Stocks held for resale are stated at the lower of cost and net realisable value.

Pensions

The regular cost of providing benefits under defined benefit schemes is charged to operating profit over the expected remaining service lives of the members of the schemes so as to achieve a constant percentage of pensionable pay. Variations from the regular cost arising from periodic actuarial valuations of the principal defined benefit schemes are allocated to operating profit over the expected remaining service lives of the members.

The cost of providing benefits under defined contribution schemes is charged as it becomes payable.

Leased assets

Where assets are financed by leasing agreements that give rights approximating to ownership, the assets are treated as if they had been purchased outright. The amount capitalised is the present value of the minimum lease payments payable during the lease term. The corresponding lease commitments are shown as obligations to the lessor. Lease payments are split between capital and interest elements using the annuity method. Depreciation on the relevant assets and interest are charged to the profit and loss account. All other leases are operating leases and the annual rentals are charged to operating profit on a straight line basis over the lease term.

Capitalisation of interest

Interest, incurred up to the time that separately identifiable major capital projects are ready for service is capitalised as part of the cost of the assets.

Following the adoption this year of FRS 15 – 'Tangible Fixed Assets', interest is capitalised gross of taxation. Prior to this, interest was capitalised net of taxation.

Debenture issue costs

The costs of issue of capital instruments such as bonds and debentures are charged to the profit and loss account on an annual basis over the life of the instrument. A corresponding amount is subsequently transferred from the share premium account to the profit and loss account reserve.

Derivatives

Swaps and forward rate agreements

The net interest paid or received under interest rate and cross currency swaps and forward rate agreements (FRAs) is recorded on an accruals basis and included within net interest in the profit and loss account.

The notional amounts of interest rate swaps and FRAs are recorded off balance sheet. Cross currency swaps are used to hedge the initial draw down and final repayment of currency denominated debt, as well as the currency interest flows, and are recorded on the balance sheet. This has the effect of restating the underlying currency denominated debt in the swapped currency.

Forward exchange contracts

Forward exchange contracts are carried on balance sheet at the difference between the amounts of the payable and receivable currency revalued at the closing exchange rate. The interest differential, being the difference between the contract rate and the spot rate on the date of entering into the forward exchange contract, is charged to the profit and loss account as interest over the life of the contract.

Exchange gains and losses

Exchange gains and losses on revaluation and maturity of forward exchange contracts are treated differently depending on the underlying exposure they hedge:

- for contracts which hedge firm third party commitments the exchange gains and losses are recognised in the profit and loss account in the same period as the underlying transaction;
- for contracts over underlying currency assets or liabilities exchange gains and losses are off-set against the equal and opposite exchange gains or losses arising on the retranslation of the underlying assets or liabilities;
- for contracts taken out to hedge overseas equity investments the exchange gains and losses are taken to reserves to off-set against the exchange differences arising on the retranslation of the net assets of the investments on consolidation;
- for contracts which hedge general trading flows the exchange gains or losses are taken to the profit and loss account in the period they arise.

Where the underlying exposure changes, or ceases to exist, the contract would be terminated and the exchange gain or loss arising taken to the profit and loss account.